SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Reyes | Analyst: Roger Lackey | Bill Number: AB 1977

Related Bills: See Prior Analysis | Telephone: 845-3627 | Amended Date: 04-24-2000

Attorney: Patrick Kusiak | Sponsor:

SUBJECT: Value Added Agriculture Land Use Economic (VALUE) Zone

X DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced February 18, 2000.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

X AMENDMENTS DID NOT RESOLVE ALL OF THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced February 18, 2000.

___ FURTHER AMENDMENTS NECESSARY.

___ DEPARTMENT POSITION CHANGED TO _____________________.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 18, 2000, STILL APPLIES.

___ OTHER - See comments below.

SUMMARY OF BILL

Under the Government Code, this bill would require the Trade and Commerce Agency (TCA) to designate, upon application of an eligible city, county, or city and county, up to five value added agriculture land use economic (VALUE) zones.

Under the Personal Income Tax Law (PITL) and the Bank and Corporation Tax Law (B&CTL), this bill would allow qualified taxpayers in a VALUE zone to claim a sales or use tax credit, a business expense deduction, a hiring credit, an employee wage credit (PITL only), and to carry over 100% of their net operating losses (NOLs) for a period of 15 years.

SUMMARY OF AMENDMENTS

The April 24, 2000, amendments incorporated the amendments to the Revenue and Taxation Code provisions drafted by the department at the author's request and discussed in the department's analysis of the bill as introduced.

In addition, the amendments provided the TCA with the authority to designate up to five VALUE zones. The amendment also provided the TCA the authority to expand a VALUE zone by up to 15% and the authority to dedesignate a VALUE zone if appropriate.

Also, the amendments clarified the meaning of "qualified taxpayer" and revised the term to be consistent for purposes of a VALUE zone.

Board Position:			Legislative Director	Date
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In addition, the April 24, 2000, amendments added provisions to the PITL and B&CTL that would allow a qualified taxpayer in a VALUE zone to claim a hiring credit and an employee wage credit (the latter provision is PITL only), in addition to the other benefits described above. With respect to the hiring credit and employee wage credit, additional state law discussion has been included below in Specific Findings.

The amendments narrowed the North American Industry Classification System (NAICS) sector references applicable to a VALUE zone and made several other technical changes.

As a result of the amendments, many of the policy, implementation, and technical concerns in the department's analysis of the bill as introduced February 18, 2000, have been resolved. The remaining policy and implementation concerns have been included below. In addition, a revised revenue estimate is provided.

Except for the discussion in this analysis, the department's analysis of the bill as introduced February 18, 2000, still applies.

Specific Findings

Hiring credit

Existing state law provides that a business located in an enterprise zone may reduce tax by a percentage of wages paid to qualified employees. A qualified employee must be hired after the area is designated as an enterprise zone and meet certain other criteria. At least 90% of the qualified employee's work must be directly related to a trade or business located in the enterprise zone and at least 50% must be performed inside the enterprise zone. The business may claim up to 50% of the wages paid to a qualified employee as a credit against tax imposed on enterprise zone income. The credit is based on the lesser of the actual hourly wage paid or 150% of the current minimum hourly wage (under special circumstances for the Long Beach enterprise zone, the maximum is 202% of the minimum wage). The amount of the credit must be reduced by any other federal or state jobs tax credits and the taxpayer's deduction for ordinary and necessary trade or business expenses must be reduced by the amount of the hiring credit.

Employee Wage Credit

Existing state law provides that certain disadvantaged individuals are allowed a credit for wages received from an enterprise zone business. Public employees are not eligible for the credit. The amount of the credit is 5% of "qualified wages," defined as wages subject to federal unemployment insurance. For each dollar of income received by the taxpayer in excess of qualified wages, the credit is reduced by nine cents. The credit is not refundable and cannot be carried forward. The amount of the credit is limited to the amount of tax that would be imposed on income from employment in the enterprise zone, computed as though that income represented the taxpayer's entire taxable income.

This bill would provide taxpayers doing business or employed in a VALUE zone the benefit of the same type of hiring credit and employee wage credit as allowed taxpayers doing business or employed in an enterprise zone.

Policy Considerations

This bill would incorporate future changes to the NAICS Manual automatically since the bill does not specify the "edition" date of this publication. As a result, unintended industries or taxpayers could be subsequently included or deleted from the benefits of this bill without further legislative action.

Implementation Considerations

The department would be required to retain the credit carryover for the sales and use tax credit on the tax forms indefinitely because an unlimited credit carryover period is allowed. Recent credits have been enacted with a carryover period limit since experience shows credits are typically used within eight years of being earned.

This bill would require some changes to existing tax forms and instructions and information systems, which could be accomplished during the normal annual update.

Tax Revenue Estimate

The revenue impact of this measure per zone is projected as follows:

Revenue Impact of the Proposal

Income/Taxable Years Beginning On or After 1/1/2001

(In Millions)

	2001-2	2002-3	2003-4
Revenue Impact	Negligible	($0.5)	($3.5)

This analysis does not account for changes in employment, personal income, or gross state product that could result from this measure.

Tax Revenue Discussion

Revenue losses under the Personal Income Tax Law and the Bank and Corporation Tax law would depend on the number of VALUE zones designated in any given year and the number and apportioned tax liabilities of businesses that could take advantage of the various state tax incentives offered by the bill.

The average revenue loss per zone for all existing enterprise zones in the state is approximately $1 million per year (reached after a number of years). The proposed zones in this bill would probably be more depressed economically. Estimates above, therefore, are general orders of magnitude for five zones authorized by January 1, 2001. The revenue estimate for the bill as introduced gave impact of a single zone, since the bill at that time did not specify the number of zones to be designated.

BOARD POSITION

Pending.